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FM AMCONSUL LAGOS
TO RUEHC/SECSTATE WASHDC 9042
INFO RUEHZK/ECOWAS COLLECTIVE
RUEHUJA/AMEMBASSY ABUJA 8854
RUEHCV/AMEMBASSY CARACAS 0040
RUEHWR/AMEMBASSY WARSAW 0405
RUEHCD/AMCONSUL CIUDAD JUAREZ 0384
RUEHIT/AMCONSUL ISTANBUL 0383
RULSDMK/DEPT OF TRANSPORTATION WASHDC
RUEKJCS/SECDEF WASHINGTON DC
RUEAIIA/CIA WASHINGTON DC
RUCPDOG/DEPT OF COMMERCE WASHDC
RHMCSUU/DEPT OF ENERGY WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHDC
RHEFDIA/DIA WASHINGTON DC

UNCLAS SECTION 01 OF 02 LAGOS 000414

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TAGS: [ECPS](#) [ECON](#) [EINV](#) [PGOV](#) [PREL](#) [NI](#)
SUBJECT: RISK ASSESSMENT TOOL FOR INDIVIDUAL STATES

REF: LAGOS 413

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¶1. (U) Summary: On May 24, risk analysis firm Economic Associates organized a seminar during which Country and State Risk Analyst, Economic Associates, Olly Owen, presented a risk-assessment tool developed by Economic Associates that rates all 36 Nigerian states on economic, societal, political, and security risks to investors. End summary.

¶2. (U) On May 24, risk analysis firm Economic Associates organized a seminar during which Country and State Risk Analyst, Economic Associates, Olly Owen, presented a risk-assessment tool developed by Economic Associates that rates all 36 Nigerian states on economic, societal, political, and security risks to investors. The assessment was developed using continuous monitoring, as well as interview, fieldwork, and documentary research, it provides a comprehensive window into the investment climate of individual states.

Diversity Necessitates State-Specific Analysis

¶3. (U) Nigerian states are diverse not only culturally, ethnically, and religiously, but also politically, demographically, and economically. Nigeria's federal system devolves significant powers of decision- and policy-making to state governments, which have independent fiscal powers to tax, spend, and issue debt. Nigeria is beginning to experience more internal competition for investment.

¶4. (U) States' revenues have increased significantly in the past several years. Most states derive the majority of revenue from the federal government, with the notable exception of Lagos State, which generates more revenue internally than it receives from the federal account. Given this diversity, analysis that examines the state, rather than federal, environment is a valuable tool for investors and observers.

14. (U) The risk-assessment model examines economic, societal, political, and security risks. Each of these dimensions is comprised of sub-factors. A preliminary sketch of these is presented below.

-- Economic Risk: This includes the presence and availability of natural resources; infrastructure; urbanization; human resources; environment; and drivers of growth. Paradoxically, higher urbanization is considered a greater risk factor, as high-density areas are more prone to outbreaks of violence and political disruption. The worst-rated states are mainly northern, given their environmental marginality. Kano and Lagos States, while they are economic centers, are not the best-rated due to significant problems with infrastructure. The best-rated states are Ogun, Enugu, and Cross-River. All of these states have been successful in attracting new investment.

-- Societal Risk: This is comprised of ethnicity; religion; and social dynamics. The last of these includes a measure for income inequality and unemployment, which are thought to define and exacerbate conflict along the fault lines of ethnicity and religion. The highest-risk state in this category is Plateau State, which is marked by indigene-settler conflicts and ethnic and religious warfare. Communal conflicts are often driven by youth unemployment, which is a risk factor in itself. Social consensus is important in reducing conflict, and is characteristic of Sokoto and Ekiti States. However, not all socially peaceful states are ethnically or religiously homogeneous, examples are Kwara State and the Federal Capital Territory.

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-- Political and Governance Risk: This includes corruption; local governance; national and party politics; and current issues. This dimension presents some interesting changes resulting from the recently-held elections. Before the elections, the Niger Delta states were considered the highest risk. However, election-day activities and post-election public reaction have been such that the Southwest and Southeast, namely, Enugu and Ekiti, are now considered the highest risk states. The states that are middle-ranked in this category are ranked that way because of consistently poor governance. The lowest-risk states are northern states such as Bauchi, Katsina, and the Federal Capital Territory, because they are relatively well-governed. Lagos and Kano States are democratic but are high-risk states due to the fact that they are governed by opposition parties.

-- Security Risk: The three sub-factors that constitute security are crime; communal violence; and law enforcement. While the prevalence of kidnapping is examined, security is understood to be broader than this. Three core Delta States, Rivers, Delta, and Bayelsa, are among the five highest-risk states. Edo State has the highest risk from conventional crimes, including bank raids and armed robbery resulting from limited police capacity. Ondo is currently the highest security risk state due to violence in the conduct of the recent elections. Policing is marginally better in the North. However, there are a greater number of parallel security companies in the South, which improves the security rating.

15. (U) More information on investment risk across Nigeria can be found at www.econassociates.com.